Banka Kombetare Tregtare Sh.a.

Independent Auditor’s Review Report
and
Consolidated Interim Financial Statements
as at and for the six month period ended 30 June 2016

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Independent Auditor's Review Report

To the Shareholders and Board of Directors of Banka Kombetare Tregtare Sh.a

We have reviewed the accompanying Consolidated Statement of Financial Position of Banka Kombetare Tregtare Sh.a (hereafter referred as the "Bank", "BKT" or the "Group") as of June 30, 2016 and the related Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of the Consolidated Interim Financial Statements in accordance with the International Financial Reporting Standards. Our responsibility is to express a conclusion on the Consolidated Interim Financial Statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

The Bank has treated its share capital issued in United States Dollar (USD) as a monetary item in the consolidated financial statements and recognized the revaluation differences for the six month period ended June 30, 2016 within net profits in the consolidated statement of profit or loss and other comprehensive income. This treatment is not in accordance with International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" which requires share capital to be treated as a non-monetary item and carried at the exchange rate of the date of the transaction. Had the Bank treated its share capital in accordance with IAS 21 requirements, the translation reserve as at June 30, 2016 would have been decreased by USD 24,585,317, retained earnings would have been increased by USD 28,556,572 and the net profit would have been decreased by USD 3,971,255 for the six month period ended June 30, 2016. Nevertheless, this would not have affected the total shareholders' equity.

Qualified Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give a true and fair view of the financial position of the Bank as at June 30, 2016, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards.

Grant Thornton sh.p.k.
Tirana, Albania
15 August 2016

Kledian Kodra, FCCA

Grant Thornton Sh.p.k. NIPT K 91923007 M Tirana ALBANIA Rruga Sami Frasheri

Banka Kombetare Tregtare Sh.a.

Consolidated statement of financial position as at 30 June 2016

(amounts in USD)

	Notes	30 June 2016	31 December 2015
Assets			
Cash and balances with Central Bank	7	235,668,267	230,545,546
Placement and balances with banks	8	154,341,628	156,716,297
Treasury bills available-for-sale	9	139,569,400	169,428,720
Trading and available-for-sale securities	10	867,406,364	787,382,041
Held-to-maturity securities	11	167,503,948	156,558,947
Loans to banks	12	287,104,134	249,292,090
Loans to customers	13	999,481,483	917,006,930
Investment in associates	14	1,333,936	1,309,175
Property and equipment	15	20,005,375	20,445,790
Intangible assets	16	1,118,286	1,203,635
Other assets	17	37,372,470	40,024,082
Total assets		**2,910,905,291**	**2,729,913,253**
Liabilities and shareholders' equity			
Liabilities			
Customer deposits	18	2,266,348,984	2,222,648,807
Due to banks and financial institutions	19	242,892,457	168,365,729
Due to third parties	20	3,714,022	2,828,259
Deferred tax liabilities	21	195,095	722,574
Accruals and other liabilities	22	12,588,910	14,488,478
Subordinated debt	23	27,863,225	27,291,374
Total liabilities		**2,553,602,693**	**2,436,345,221**
Shareholders' equity			
Share capital	24	250,000,000	206,911,900
Translation reserve	24	81,197	(2,229)
Fair value reserve	24	33,293,379	976,965
Retained earnings	24	73,928,022	85,681,396
Total shareholders' equity		**357,302,598**	**293,568,032**
Total liabilities and shareholders' equity		**2,910,905,291**	**2,729,913,253**

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated interim financial statements set out on pages 6 to 60.

The consolidated interim financial statements were authorised for release by the Board of Directors on 20 July 2016 and signed on its behalf by:

Seyhan Pencabligil
CEO and Board Member

Skënder Emini
Head of Financial and IT Group

Consolidated statement of profit or loss and other comprehensive income for the six month period ended 30 June 2016

(amounts in USD)

	Notes	Six-month period ended 30 June 2016	Three-month period ended 30 June 2016	Six-month period ended 30 June 2015	Three-month period ended 30 June 2015
Interest					
Interest income	**25**	61,272,831	30,690,394	61,966,448	30,623,819
Interest expense	**26**	(14,204,526)	(6,902,814)	(18,303,845)	(9,012,152)
Net interest margin		**47,068,305**	**23,787,580**	**43,662,603**	**21,611,667**
Non-interest income, net					
Fees and commissions, net	**27**	7,426,530	4,272,596	5,669,471	3,037,706
Foreign exchange revaluation, net	**28**	(766,652)	(4,681)	3,742,864	(1,597,794)
Foreign exchange trading activities, net		1,267,488	685,677	(173,386)	93,354
Securities trading gain/(loss), net		6,606,152	4,575,023	105,674	(2,957,397)
Other income/(expense), net	**29**	(944,539)	(348,475)	(2,116,491)	(2,434,491)
Total non-interest income, net		**13,588,979**	**9,180,140**	**7,228,132**	**(3,858,622)**
Operating expenses					
Personnel expenses	**30**	(8,309,856)	(4,188,253)	(8,262,516)	(4,227,545)
Administrative expenses	**31**	(10,779,375)	(6,128,208)	(9,018,870)	(4,804,533)
Depreciation and amortization	**15,16,17**	(2,062,319)	(1,036,899)	(2,103,830)	(1,039,741)
Total operating expenses		**(21,151,550)**	**(11,353,360)**	**(19,385,216)**	**(10,071,819)**
Impairment of loans	**13**	(4,112,577)	(3,565,692)	(2,702,668)	(2,167,136)
Profit before taxes		**35,393,157**	**18,048,668**	**28,802,851**	**5,514,090**
Income tax	**32**	(5,539,987)	(2,897,050)	(4,369,243)	(885,402)
Net profit for the period		**29,853,170**	**15,151,618**	**24,433,608**	**4,628,688**
Foreign currency translation differences		83,426	(287,382)	3,390,976	868,513
Net change in fair value reserves		32,316,414	15,656,946	4,627,642	1,298,266
Other comprehensive income for the period, net of income tax		**32,399,840**	**15,369,564**	**8,018,618**	**2,166,779**
Total comprehensive income for the period		**62,253,010**	**30,521,182**	**32,452,226**	**6,795,467**

The consolidated statement of profit or loss and comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 60.

Consolidated statement of changes in equity for the six month period ended 30 June 2016
(amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2015	**166,403,900**	**-**	**(3,403,714)**	**(3,835,505)**	**87,470,104**	**246,634,785**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners	-	-	-	-	-	**-**
Increase in share capital	40,508,000	-	-	-	(40,508,000)	**-**
Appropriation of 2014 year translation difference	-	-	-	-	(3,403,714)	**(3,403,714)**
Adjustment of retained earnings with June 2015 exchange rate	-	-	-	-	(7,782,712)	**(7,782,712)**
Total transactions with owners recorded in equity	*40,508,000*	-	-	-	*(51,694,426)*	***(11,186,426)***
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	24,433,608	**24,433,608**
Other comprehensive income / (expense), net of income tax						
Net change in fair value reserve	-	-	-	4,627,642	-	**4,627,642**
Foreign currency translation differences	-	-	3,390,976	-	-	**3,390,976**
Total other comprehensive (loss)/income	-	-	3,390,976	4,627,642	-	**8,018,618**
Total comprehensive (loss)/income for the period	-	-	*3,390,976*	*4,627,642*	*24,433,608*	***32,452,226***
Balance as at 30 June 2015	**206,911,900**	**-**	**(12,738)**	**792,137**	**60,209,286**	**267,900,585**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 60.

Consolidated statement of changes in equity for the six month period ended 30 June 2016
(amounts in USD)

	Share capital	Legal reserve	Translation reserve	Fair value reserve	Retained earnings	Total
Balance as at 1 January 2016	**206,911,900**	**-**	**(2,229)**	**976,965**	**85,681,396**	**293,568,032**
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners	-	-	-	-	-	**-**
Increase in share capital	43,088,100	-	-	-	(43,088,100)	**-**
Appropriation of 2015 year translation difference	-	-	-	-	(2,229)	**(2,229)**
Adjustment of retained earnings with June 2016 exchange rate	-	-	-	-	1,483,785	**1,483,785**
Total transactions with owners recorded in equity	*43,088,100*	-	-	-	*(41,606,544)*	***1,481,556***
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	29,853,170	**29,853,170**
Other comprehensive income / (expense), net of income tax						
Net change in fair value reserve	-	-	-	32,316,414	-	**32,316,414**
Foreign currency translation differences	-	-	83,426	-	-	**83,426**
Total other comprehensive (loss)/income	-	-	83,426	32,316,414	-	**32,399,840**
Total comprehensive (loss)/income for the period	-	-	*83,426*	*32,316,414*	*29,853,170*	***62,253,010***
Balance as at 30 June 2016	**250,000,000**	**-**	**81,197**	**33,293,379**	**73,928,022**	**357,302,598**

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 60.

	Notes	Six-month period ended 30 June 2016	Six-month period ended 30 June 2015
Cash flows from operating activities:			
Profit before taxes		35,393,157	28,802,851
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Interest expense	**26**	14,204,526	18,303,845
Interest income	**25**	(61,272,831)	(61,966,448)
Depreciation and amortization	**15,16,17**	2,062,319	2,103,830
Gain on sale of property and equipment		(39,794)	(26,716)
Gain on sale of treasury bills		(45,932)	(17,370)
Gain on sale of non-current assets		(14,807)	-
Gain on recovery of written-off loans to customers		(43,201)	(48,402)
Write-off of property and equipment		31,143	31,374
Write-off of loans to customers		586,135	4,772,607
Provision on other debtors		462,975	1,327,014
Loss from other debtors		46,527	
Movement in the fair value reserve		32,173,253	4,299,824
Impairment of loans	**13**	4,112,577	2,702,668
Cash flows from operating profits before changes in operating assets and liabilities		27,656,047	285,077
(Increase) /decrease in operating assets:			
Restricted balances with central bank		(20,472,052)	3,275,830
Placements and balances with banks		658,769	(4,208,950)
Loans to banks		(32,846,050)	28,578,886
Loans to customers		(69,146,311)	(73,384,837)
Other assets		1,877,408	4,720,044
		(119,928,236)	(41,019,027)
Increase/(decrease) in operating liabilities:			
Customer deposits		3,398,952	111,072,486
Due to third parties		830,094	130,256
Accruals and other liabilities		(363,297)	(2,316,635)
Subordinated debt		10,082	17,868
		3,875,831	108,903,975
Interest paid		(15,142,581)	(18,455,944)
Interest received		62,753,243	65,964,394
Income taxes paid		(7,336,517)	(5,736,140)
Net cash flows from operating activities		**(48,122,213)**	**109,942,335**
Cash flows from investing activities			
Purchases of investment securities		(72,667,072)	(117,537,575)
Purchases of treasury bills		20,007,040	45,387,758
Investment in associates		-	-
Purchases of property and equipment		(1,428,774)	(7,104,826)
Proceeds from sale of property and equipment		298,714	168,180
Proceeds from sale of treasury bills		10,000,544	16,927,184
Net cash flows used in investing activities		**(43,789,548)**	**(62,159,279)**
Cash flows from financing activities			
Proceeds from short term borrowings		71,199,983	7,485,997
Net cash flows from financing activities		**71,199,983**	**7,485,997**
Net change in cash and cash equivalents		**(20,711,778)**	**55,269,053**
Effects of exchange rate changes on the balance of cash held in foreign currencies / (Translation difference)		786,401	(6,480,744)
Cash and cash equivalents at the beginning of the period	7	**200,159,020**	**167,666,548**
Cash and cash equivalents at the end of the period	7	**180,233,643**	**216,454,857**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 6 to 60.

1. General

Banka Kombëtare Tregtare Sh.a. is a commercial bank offering a wide range of universal services. The consolidated interim financial statements comprise the Bank, its branch and its investment in associate (together referred to as the "Bank", "BKT" or the "Group").

The Bank provides banking services to state and privately owned enterprises and to individuals. The main sources of funding for the Bank are deposits, which are accepted in various forms including current accounts, demand and term deposits, in both Lek and foreign currency. BKT offers a variety of corporate and consumer loans, EMV-compliant debit and credit cards, ATMs, internet banking, mobile banking, on-line banking facilities, qualified international banking services and various treasury products. It also invests in securities and takes part actively in the local and international inter-bank markets.

BKT was established in its present legal form on 30 December 1992, although its first branch was opened on 30 November 1925.

BKT is subject to Law no. 8269 "On the Bank of Albania", dated December 1997, and Law no. 9662 "On Banks on the Republic of Albania", dated 18 December 2006.

Upon the Shareholder's Decision dated 24 March 2016, the Bank increased its paid-up capital by Lek 5,339,908 thousand (equivalent of USD 43,088,100.25), using part of the statutory net profit for the year ended December 31, 2015. The capital increase was translated into USD using the exchange rate published by Bank of Albania as at 24 March 2016 (123.93 Lek per USD).

Following this increase, the shareholding structure remained the same as did the nominal value of shares at USD 12.35, while the number of shares increased by 3,488,915. The shareholding structure as at 30 June 2016 and 31 December 2015 was as follows:

	30 June 2016			***31 December 2015***		
	No. of shares	**Total in USD**	**%**	**No. of shares**	**Total in USD**	**%**
Calik Finansal Hizmetler A.S.	20,242,915	250,000,000.25	100	16,754,000	206,911,900	100

The headquarters of BKT is located in Tirana. The network of the Bank in Albania includes 63 branches and 2 custom agencies. Twenty-six branches are located in Tirana, and the other branches are located in Durres, Elbasan, Vlora, Shkodra, Fier, Pogradec, Korca, Bilisht, Gjirokastra, Delvina, Saranda, Orikum, Berat, Kucova, Lushnja, Librazhd, Peqin, Rrogozhina, Shkozet, Kavaja, Vora, Kamza, Fushe Kruja, Lac, Lezha, Rreshen, Kukes, Peshkopi, Bushat, Koplik and Gramsh, followed by custom agencies in Durrës Seaport and Rinas Airport.

The network in Kosovo includes 26 units. Seven units are located in Prishtina, and the other units are located in Prizren, Peja, Gjilan, Ferizaj, Mitrovica, Gjakova, Vushtrri, Fushe Kosova, Podujeva, Drenas, Rahovec, Viti and Lipjan, Dheu i Bardhe, Prishtina Airport and Skenderaj.

The Bank had 1,300 (31 December 2015: 1,285) employees as at 30 June 2016, out of which 354 (31 December 2015: 350) were employees of Kosovo Branch.

2. Basis of preparation

(a) Statement of compliance

These consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale financial assets, which are measured at fair value..

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(c) Functional and presentation currency

These consolidated financial statements are presented in USD. Albanian Lek (“Lek”) is the Bank’s functional currency.

The Bank has chosen to present its financial statements in USD, as its equity is wholly owned by international investors, who have issued the start-up capital in USD and view the performance of the investment in terms of USD.

(d) Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in notes 4 and 5.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements, and have been applied consistently by Bank entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities (branches) controlled by the Bank. Control exists when the Bank has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

***(i) Subsidiaries* (continued)**

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(ii) Branches

On 3 September 2007, BKT opened its first branch outside of the territory of the Republic of Albania. The Administrative Office of this branch was opened in Prishtina, Kosovo. The functional currency of the branch is the EURO. The effect of translating foreign operations into the Bank's functional currency is explained in note 3.(b).(ii) below.

(iii) Transactions eliminated on consolidation

All intragroup assets and liabilities, equity, income, expenses and cash flows (except for foreign currency transaction gains or losses) relating to transactions between members of the Group are eliminated in full on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction, with the exception of the share capital, which is issued and maintained in USD as per the legislation in Albania as well as per Special Law No. 8634, dated 6 July 2000, between the Bank's shareholders and the Republic of Albania on the Bank's privatisation.

Furthermore, the Operating Policy Guidelines of the Bank require that the share capital be hedged by USD assets, and it is therefore treated as a monetary item, with the revaluation difference being taken to profit or loss together with the revaluation difference of the corresponding USD asset, which offset each other in a natural hedge.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated into Lek at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into Lek at spot exchange rates at the dates of the transactions. Foreign currency differences on the translation of foreign operations are recognised directly in other comprehensive income. Such differences have been recognised in the foreign currency translation reserve.

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

(iii) Translation of financial statements from functional currency to presentation currency

Translation of financial statements from functional currency to presentation currency is done as follows:

- assets and liabilities for reporting date (including comparatives) are translated at the closing rate at the date of that reporting date, which is Bank of Albania's rate at 1 USD = 125.57 Lek (2014: 115.23).
- income and expenses (including comparatives) are translated at exchange rates at the dates of the transactions.
- equity items other than the net profit for the period and share capital, are translated at exchange rates at the dates of the transactions.
- share capital has been translated as described in paragraph 3.(b).(i) above; and
- all resulting exchange differences are recognised through other comprehensive income as a separate component of equity in the "Translation reserve" account.

(iv) Spot foreign exchange transactions

The Bank during the normal course of business enters into spot foreign exchange transactions with settlement dates 1 or 2 days after the trade date. These transactions are recorded in the financial statements on the settlement date. Foreign currency differences are recognised in profit or loss on the settlement date.

(c) Interest

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(d) Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income are recognised as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(e) Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

3. Significant accounting policies (continued)

(f) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

(g) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(ii) Classification

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss' (FVTPL), ‘held-to-maturity' investments, ‘available-for-sale' (AFS) financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

See also accounting policies 3(h), (i) and (j).

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank writes off certain loans and investment securities when they are determined to be uncollectible.

(iv) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price). In many cases the transaction price equals the fair value (that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold). When determining whether fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(vii) Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

3. Significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

***(vii) Identification and measurement of impairment* (continued)**

The Bank considers evidence of impairment for loans and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Loans and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and held-to-maturity investment securities with similar risk characteristics.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised directly in other comprehensive income to profit or loss. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

(h) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(i) Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

(j) Loans

Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans at fair value through profit or loss as described in accounting policy 3 (g),(vi).

3. Significant accounting policies (continued)

(k) Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity, which do not meet the definition of loans receivables, that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are recognised in profit or loss.

(iii) Held-for-trading

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

These financial assets are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

3. Significant accounting policies (continued)

(l) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

• Buildings and leasehold improvements	20 years
• Motor vehicles and other equipment	5 years
• Office equipment	5 years
• Computers and electronic equipment	4 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(m) Intangible assets

Intangible assets comprise software acquired by the Bank. Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is four years.

3. Significant accounting policies (continued)

(n) Assets acquired through legal process (repossessed collateral)

Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets. The Group applies its accounting policy for non-current assets held for sale or disposal groups to repossessed collateral where the relevant conditions for such classification are met at the end of the reporting period.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation). Accounting policy for associates is applied to repossessed shares where the Group obtains significant influence, but not control. The cost of the associate is the fair value of the loan settled by repossessing the pledged shares.

(o) Impairment of non-financial assets

The carrying amounts of the Bank’s non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued)

(p) Investments in associates

An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. In accordance with IAS 28 “Investments in Associates and Joint Ventures”, under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Bank’s share of the profit or loss and other comprehensive income of the associate. When the Bank’s share of losses of an associate exceeds the Bank’s interest in that associate (which includes any long-term interests that, in substance, form part of the Bank’s net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank’s investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Bank losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Bank accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Bank reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

(q) Deposits, borrowings and subordinated liabilities

Deposits, borrowings and subordinated liabilities are part of the Bank’s sources of debt funding. When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date (“repo” or “stock lending”), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognised in the Bank’s financial statements.

Deposits, borrowings and subordinated liabilities are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies (continued)

(r) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

(s) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due. The Bank makes compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan.

(ii) Defined benefit plans

The Bank created a fully employer sponsored pension plan fund-Staff Support Program (See Note 21, “Reserve fund for retiring employees”) during 2002. The amount charged to this fund (SSP) was decided as 5% of yearly budgeted personnel salary expenses.

The amount due to employees based on the above plan would be grossed up by the interest that will accrue from the date the employees leave the Bank until their retirement. It would be paid to employees only when they reach the Albanian statutory retirement age, in monthly instalments equal to a minimum of 75% of their state monthly pension until the accumulated fund for the employee is consumed.

Based on the Board of Directors resolution effective on 30 September 2010, the Bank stopped the investment in this fund (SSP), by transforming it into the Staff Retention Credit Program (SRCP). The demographic changes in labour force during the last ten years and the employees’ average age at 31, where 80% of employees are below the age of 40, has resulted in SSP not being attractive for most employees of the Bank, as it can only be enjoyed at retirement. In contrast, SRCP will be more readily beneficial for all the Bank’s staff, as it will provide consumer and home loans with preferential terms. The entire due amount calculated for eligible employees in Staff Support Program has been frozen on the same date. The frozen amount due to change of SSP into SRCP on 30 September 2010 and the corresponding annual interest that will be gained by the investment in AAA sovereign bonds in the future until retirement age, is recorded as a liability by the Bank.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3. Significant accounting policies (continued)

(t) Segment reporting

An operating segment is a component of the Bank that engages in business activities from which may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other Components, whose operating results are reviewed regularly by the management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available (see Note 6). The Bank's format for segment reporting is based on geographical segments.

(u) New standards and amended that are effective for annual periods beginning on or after 1 January 2015

Some new standards and revised are effective for annual periods beginning on or after 1 January 2015. Information about these standards is presented below.

Early adaptation of 'defined benefit plan, employee contributions (Amendments to IAS 19)

The Bank has early adopted 'defined benefit scheme, employee contributions (Amendments to IAS 19). These amendments are effective for annual periods beginning on or after 1 July 2015:

- clarify the requirements of IAS 19 in connection with employee contributions or third parties;
- present a useful practice when contributions are independent of the number of years of service can be treated as a reduction in service costs in the period in which the service is provided.

The Bank has applied this practice in its accounting policies. This treatment is consistent with previous practices of the Bank prior to the Amendments to IAS 19. Therefore, the initial application of the change has no effect on the financial statements of the Company.

Other changes in IFRS which became mandatory in 2015 had no material impact on the financial results of the Company or stance. Therefore, the Bank has not made any change in its accounting policies in 2015.

(v) Standards, amendments and interpretations made about the standards that are not effective and not yet adopted by the Bank

At the date of approval of the financial statements, certain new standards, amendments to existing standards were issued by the Board of the International Accounting Standards (IASB) but are not yet effective and have not been previously adopted by the Bank. Information about those standards that are expected to be significant for the Bank's Consolidated Interim Financial Statements is provided below.

The direction of the Bank provides that all declarations will be adopted in the accounting policies of the organization at the time that these statements will become effective. Standards, new adaptations and interpretations that have been adopted or are not listed below are not expected to have material impact on the Bank's Consolidated Interim Financial Statements.

IFRS 9 'Financial Instruments' (2014)

The Board of the International Accounting Standards (IASB) has recently introduced IFRS 9 "Financial Instruments" (2014), which represents the completion of its project to replace IAS 39 "Financial Instruments: Recognition and Measurement." The new standard introduces changes major guidelines of IAS 39 on the classification and measurement of financial assets and presents a new model 'expected credit loss' for impairment of financial assets. IFRS 9 also provides new guidance for the application of hedge accounting.

Management has begun to assess the impact of IFRS 9, but is not yet able to provide quantitative information. At this stage the main areas of expected impact are as follows:

• classification and measurement of financial assets of the Bank will be reviewed based on new criteria which considers the contractual cash flows of the assets and business model in which they are managed

• it will be possible to measure equity investments at cost less depreciation and all of these investments shall be measured at fair value. Changes in fair value will be presented in profit or loss, unless the Bank makes an irrevocable determination to present them in other comprehensive income.

• if the Bank elects the fair value option for certain financial liabilities, fair value movements will be presented in other comprehensive income to the extent that these changes are related to the credit risk of the Bank itself.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018

SNRF 15 'Revenue from Contracts with Customers'

IFRS 15 introduces new requirements for the recognition of revenue, replacing IAS 18 "Revenue", IAS 11 "Construction Contracts', and some other interpretations in relation to income. The new standard creates a model for the recognition of revenue based on control and provides additional guidance in many areas that are not covered in detail by existing IFRSs, including how to deal with agreements with the obligations of multiple performance, price variable rights refund customers the option to repurchase the supplier, and other common complexities.

IFRS 15 is effective for reporting periods beginning on or after January 1, 2018. Management of the Bank has not yet assessed the impact of IFRS 15 on the financial statements.

Changes in IFRS 11 Joint Arrangements

These amendments provide guidance on accounting for the acquisition of interests in joint operations that constitute a business. The amendments require that all such transactions be accounted for using the accounting principles of the business combination under IFRS 3 "Business Combinations" and other IFRSs, except when those principles are inconsistent with IFRS 11. Purchases of interests in enterprises common are not affected by this new regulation.

The Bank has not so far made any investment in a mutual agreement in which the Bank has the right to a portion of the net assets of the arrangement rather than direct rights over assets and liabilities. Therefore, if adopted today, these changes will not have any material impact on the financial statements. The amendments are effective for reporting periods beginning on or after January 1, 2016.

4. Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see Note 5).

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(g) (vii).

The Bank reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire category as available for sale. The investments would therefore be measured at fair value not amortized cost.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(g)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgments made in applying the Bank's accounting policies include:

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed under note 3(g)(vi).

The Bank measures fair values using the following hierarchy of methods:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

4. Use of estimates and judgements (continued)

Valuation of financial instruments (continued)

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which usually are developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of management judgment and estimation in determination of fair value. Management judgment and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

4. Use of estimates and judgements (continued)

Fair values

The table below sets out the carrying amounts and fair values of the financial assets and liabilities and analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

30 June 2016	Note	Carrying Amount	Fair Value			
			Level 1	Level 2	Level 3	Total
Placement and balances with banks	8	154,341,628	-	154,341,628	-	154,341,628
Treasury bills available-for-sale	9	139,569,400	-	139,569,400	-	139,569,400
Trading and available-for-sale securities	10	867,406,364	283,024,163	584,382,201	-	867,406,364
Held-to-maturity securities	11	167,503,948	114,278,665	55,936,910	-	170,215,575
Loans to banks	12	287,104,134	-	287,104,134	-	287,104,134
Loans to customers	13	999,481,483	-	999,481,483	-	999,481,483
Total financial assets		**2,615,406,957**	**397,302,828**	**2,220,815,756**	**-**	**2,618,118,584**
Customer deposits	18	2,266,348,984	-	2,266,348,984	-	2,266,348,984
Due to banks and financial institutions	19	242,892,457	-	242,892,457	-	242,892,457
Subordinated debt	23	27,863,225	-	27,863,225	-	27,863,225
Total financial liabilities		**2,537,104,666**	**-**	**2,537,104,666**	**-**	**2,537,104,666**

31 December 2015	Note	Carrying Amount	Level 1	Level 2	Level 3	Total
Placement and balances with banks	8	156,716,297	-	156,716,297	-	156,716,297
Treasury bills available-for-sale	9	169,428,720	-	169,428,720	-	169,428,720
Trading and available-for-sale securities	10	787,382,041	257,376,095	530,005,946	-	787,382,041
Held-to-maturity securities	11	156,558,947	109,844,670	47,447,656	-	157,292,326
Loans to banks	12	249,292,090	-	249,292,090	-	249,292,090
Loans to customers	13	917,006,930	-	917,006,930	-	917,006,930
Total financial assets		**2,436,385,025**	**367,220,765**	**2,069,897,639**	**-**	**2,437,118,404**
Customer deposits	18	2,222,648,807	-	2,222,648,807	-	2,222,648,807
Due to banks and financial institutions	19	168,365,729	-	168,365,729	-	168,365,729
Subordinated debt	23	27,291,374	-	27,291,374	-	27,291,374
Total financial liabilities		**2,418,305,910**	**-**	**2,418,305,910**	**-**	**2,418,305,910**

The fair value of foreign exchange contracts approximates their carrying amount, which is disclosed in Notes 17 and 22. During 2015 there have been transfers from level 3 to level 2 of the fair value hierarchy for Asset Backed Securities in the amount of USD 17,286,766

In preparing these interim consolidated financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

5. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Bank. The most significant risks facing the Bank are credit risk, liquidity risk and market risk. Market risk includes foreign currency risk, interest rate risk and other price risk.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO), Risk Management Group and Credit Committees, which are responsible for developing and monitoring Bank risk management policies in their specified areas. All these bodies report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(b) Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank has formed a Credit Committee to oversee the approval of requests for credits. Credit requests with amounts over EUR 1,000,000 are approved only upon decision of the Board of Directors of the Bank. There is a continuous focus on the quality of credits extended both at the time of approval and throughout their lives.

Each business unit is required to comply with Bank credit policies and procedures. Regular audits of business units and Bank Credit Risk Management Department processes are undertaken by Internal Audit.

5. Financial risk management (continued)

(b) Credit Risk (continued)

Maximum credit exposure

Maximum exposures to credit risk before collateral and other credit enhancements as at 30 June 2016 and 31 December 2015 are as follows:

	30 June 2016	**31 December 2015**
Cash and balances with Central Bank	235,668,267	230,545,546
Treasury bills available-for-sale	139,569,400	169,428,720
Due from other banks	441,445,762	406,008,387
Loans to customers, net	999,481,483	917,006,930
Trading and available-for-sale securities	867,406,364	787,382,041
Held-to-maturity securities	167,503,948	156,558,947
Financial guarantees	55,618,615	69,121,558
Standby letters of credit	2,821,135	7,639,499
Commitments to extend credit	96,585,161	97,321,211
Maximum exposures to credit risk	**2,866,530,735**	**2,841,012,839**

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded A to D in the Bank's internal credit risk grading system. The Risk Committee of BKT is engaged with the grading of the customers and their scoring according to the appropriate categories. It decides the changes on grading and takes the necessary actions according to the monitoring procedures. The Risk Committee grades each loan according to these factors:

- Ability to Pay
- Financial Condition
- Management ability
- Collateral and Guarantors
- Loan Structure
- Industry and Economics

Past due but not impaired loans

Past due but not impaired loans are those loans and securities, where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider.

Once the loan is restructured, its performance is closely monitored for the purpose of impairment testing.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. It relates to the specific loss component for individually significant exposures. Refer to note 4.

Write-off policy

The Bank writes off a loan / security balance (and any related allowances for impairment losses) with the decision of the Board of Directors, in accordance with the regulation of Bank of Albania "On Credit Risk Management". The write-off decision is taken after considering information such as the occurrence of significant changes in the borrower / issuer's financial position, such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

5. Financial risk management (continued)

(b) Credit Risk (continued)

	Loans to customers			
30 June 2016	**Retail**	**Business**	**Advances**	**Total**
Neither past due nor impaired	215,839,349	566,727,620	498,448	783,065,417
Past due and individually tested but not impaired	84,904,886	108,914,278	63,482	193,882,646
Individually impaired	13,408,189	39,139,582	1,412,591	53,960,362
Total Loans, gross (Note 13)	**314,152,424**	**714,781,480**	**1,974,521**	**1,030,908,425**
Allowance for individual impairment	(8,467,545)	(11,754,654)	(1,392,028)	(21,614,227)
Allowance for collective impairment	(3,029,519)	(6,777,577)	(5,619)	(9,812,715)
Total Loans, net of impairment	**302,655,360**	**696,249,249**	**576,874**	**999,481,483**

	Loans to customers			
31 December 2015	**Retail**	**Business**	**Advances**	**Total**
Neither past due nor impaired	196,829,891	516,276,989	659,185	713,766,065
Past due and individually tested but not impaired	79,680,206	107,299,191	64,768	187,044,165
Individually impaired	12,584,768	29,018,309	1,395,038	42,998,115
Total Loans, gross (Note 13)	**289,094,865**	**652,594,489**	**2,118,991**	**943,808,345**
Allowance for individual impairment	(7,748,753)	(8,617,759)	(1,386,063)	(17,752,575)
Allowance for collective impairment	(2,786,488)	(6,255,112)	(7,240)	(9,048,840)
Total Loans, net of impairment	**278,559,624**	**637,721,618**	**725,688**	**917,006,930**

Set out below is an analysis about the credit quality of corporate loans to customers:

Rating	**30 June 2016**	**31 December 2015**
A: Good	5,990,430	3,878,667
B: Acceptable	626,362,231	576,864,679
C: Close Monitoring	54,765,954	47,312,574
D: Unacceptable	23,328,006	20,948,225
(Note 13)	**710,446,621**	**649,004,145**
Accrued interest	6,450,601	5,525,311
Less: unamortized deferred fee income	(2,115,742)	(1,934,967)
Total	**714,781,480**	**652,594,489**

Set out below are the carrying amounts of loans to customers whose term have been renegotiated and are under monitoring:

	Loans and advances to customers			
	Retail	**Corporate**	**Advances**	**Total Loans**
30 June 2016	4,611,614	66,291,241	30,797	70,933,652
31 December 2015	4,204,500	55,846,032	74,675	60,125,207

5. Financial risk management (continued)

(b) Credit Risk (continued)

Set out below is the ageing analysis of all past due loans either impaired or not impaired individually:

	Loans to customers			
30 June 2016	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	26,589,212	22,545,770	227,275	49,362,257
Past due 32-60 days	8,032,922	7,369,266	249,979	15,652,167
Past due 61-90 days	8,879,172	17,973,830	133,204	26,986,206
Past due 91-180 days	4,116,939	29,773,107	66,755	33,956,801
Past due 181 days- 365 days	5,598,291	5,597,594	33,809	11,229,694
Past due 1-2 years	3,126,582	14,872,662	8,245	18,007,489
Past due over 2 years	6,137,196	18,032,881	406,201	24,576,278
Total	**62,480,314**	**116,165,110**	**1,125,468**	**179,770,892**

	Loans to customers			
31 December 2015	**Retail**	**Corporate**	**Advances**	**Total Loans**
Past due up to 31 days	21,633,977	20,931,075	157,696	42,722,748
Past due 32-60 days	9,530,471	6,986,068	200,740	16,717,279
Past due 61-90 days	8,914,408	30,328,163	123,312	39,365,883
Past due 91-180 days	3,455,956	4,399,567	50,054	7,905,577
Past due 181 days- 365 days	4,680,228	12,475,042	5,933	17,161,203
Past due 1-2 years	3,478,746	8,574,723	8,092	12,061,561
Past due over 2 years	5,402,525	13,161,440	443,564	19,007,529
Total	**57,096,311**	**96,856,078**	**989,391**	**154,941,780**

Set out below is an analysis of collateral and credit enhancement obtained during the years:

	Loans to customers		
30 June 2016	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial property	737,587,408	1,060,120,552	1,797,707,960
Financial assets	21,112,273	204,927,325	226,039,598
Other	103,441,662	259,426,780	362,868,442
Total	**862,141,343**	**1,524,474,657**	**2,386,616,000**

	Loans to customers		
31 December 2015	**Retail**	**Corporate**	**Total Loans**
Residential, commercial or industrial property	708,535,700	1,021,188,862	1,729,724,562
Financial assets	18,867,487	182,388,858	201,256,345
Other	76,002,778	230,804,807	306,807,585
Total	**803,405,965**	**1,434,382,527**	**2,237,788,492**

5. Financial risk management (continued)

(b) Credit Risk (continued)

Credit quality of other financial assets, based on the internal rating system of the Bank is detailed as follows:

30 June 2016	Cash and balances with Central Bank	Treasury Bills	Due from other banks	Available for sale portfolio	Held to maturity portfolio	Total
Good	235,668,267	139,569,400	441,445,762	867,406,364	167,503,948	1,851,593,741
Acceptable	-	-	-	-	-	-
Close monitoring	-	-	-	-	-	-
Total	**235,668,267**	**139,569,400**	**441,445,762**	**867,406,364**	**167,503,948**	**1,851,593,741**

31 December 2015	Cash and balances with Central Bank	Treasury Bills	Due from other banks	Available for sale portfolio	Held to maturity portfolio	Total
Good	230,545,546	169,428,720	406,008,387	787,382,041	156,558,947	1,749,923,641
Acceptable	-	-	-	-	-	-
Close monitoring	-	-	-	-	-	-
Total	**230,545,546**	**169,428,720**	**406,008,387**	**787,382,041**	**156,558,947**	**1,749,923,641**

Treasury bills, Investments held for trading, available for sale and held to maturity are rated as follows:

Moody's Ratings or equivalent	**Note**	**30 June 2016**	**31 December 2015**
Government bonds and treasury bills	**9,10,11**		
Rated Aa2 to Aaa		-	11,265,893
Rated Baa3		20,348,900	11,645,506
Rated Ba3 to Ba1		16,868,060	25,639,178
Rated B1		782,259,532	744,944,926
Not rated		39,437,491	40,100,443
Corporate bonds and asset backed securities	**10,11**		
Rated A3		1,438,549	1,407,048
Rated Baa3		12,729,400	18,211,894
Rated Ba3 to Ba1		3,138,438	15,003,514
Rated B3 to B1		5,435,504	-
Not rated		6,394,571	5,562,447
Bank bonds	**10,11**		
Rated A2		25,298,294	-
Rated Baa3 to Baa2		113,592,609	105,032,372
Rated Ba2 to Ba1		62,693,487	60,089,425
Rated Ba3		33,063,542	18,582,423
Rated B1		20,215,375	24,820,974
Not rated		1,613,257	6,687,455
Investments in equity			
Rated Baa3 to Baa1		3,049,439	-
Not rated		26,903,264	24,376,210
Total		**1,174,479,712**	**1,113,369,708**

The rating for loans to banks is detailed in Note 12.

5. Financial risk management (continued)

(b) Credit Risk (continued)

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and investment securities as at 30 June 2016 and 31 December 2015 is shown below:

	Note	Loans to customers		Loans to banks		Investment debt securities	
		30 June 2016	**31 December 2015**	**30 June 2016**	**31 December 2015**	**30 June 2016**	**31 December 2015**
Carrying amount	**9-11,12,13**	999,481,483	917,006,930	287,104,134	249,292,090	1,174,479,712	1,113,369,708
Concentration by sector							
Corporate		691,326,015	632,913,048	-	-	59,089,165	64,561,113
Government		4,923,234	4,808,571	-	-	858,913,983	833,595,946
Banks		-	-	287,104,134	249,292,090	256,476,564	215,212,649
Retail		303,232,234	279,285,311	-	-	-	-
Total		**999,481,483**	**917,006,930**	**287,104,134**	**249,292,090**	**1,174,479,712**	**1,113,369,708**

Concentration by location	**Note**	**Loans to customers**		**Loans to banks**		**Investment debt securities**	
		30 June 2016	**31 December 2015**	**30 June 2016**	**31 December 2015**	**30 June 2016**	**31 December 2015**
Albania		601,658,407	577,220,628	-	-	776,689,472	744,944,926
Kosovo		187,751,275	152,094,044	-	-	39,437,491	40,100,443
Europe		175,491,801	153,747,180	264,584,101	234,555,104	294,873,655	267,611,959
Asia		-	-	5,046,525	7,083,030	12,131,963	19,297,482
Middle East and Africa		34,580,000	33,945,078	17,473,508	7,653,956	24,814,374	17,812,005
South America			-		-	26,532,757	23,602,893
Total	**9-11,12,13**	**999,481,483**	**917,006,930**	**287,104,134**	**249,292,090**	**1,174,479,712**	**1,113,369,708**

5. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The purpose of Liquidity Risk Management (LRM) is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. Bank’s LRM policy includes how the Bank identifies, measures, monitors and control that risk.

Organization of LRM: Bank’s LRM Organization includes two different bodies in the monitoring and management of liquidity. The involvement of different bodies helps provide clear allocation of the responsibility for monitoring/reporting and management of Liquidity Risk. Day-to-day management of liquidity belongs to the Treasury Group but day-to-day monitoring of Liquidity risk and compliance to the limits belongs to the Risk Management Group. The main purpose of the Risk Management Group, which conducts daily overview of LRM reports, is to provide an early warning signal of liquidity risk to the senior management of the Bank.

LRM Reports: Bank’s LRM policy includes sets of daily and monthly reports to be reviewed and monitored by Operational & Market Risk Department. Daily reports include Maximum Cumulative Outflow table and Cumulative Assets and Liabilities Breakdown table, which control respectively daily and monthly inflows/outflows of liquidity till 1-year maturity under “business as usual” scenario. Monthly reports include stress testing liquidity breakdown tables, which control daily and monthly inflows/ outflows of liquidity under separate bank specific and market specific crisis scenarios till 3-months maturity.

The LRM approach of the Bank results in positive liquidity gaps for all time buckets up to one year as at 30 June 2016. This resulted mainly because of the following three assumptions:

- Using statistical method and historical data (derived since 2001), the actual LRM reports include analysis into the behavioural re-investment pattern of deposits;
- Short term securities available for sale are considered liquid through the secured funding from Bank of Albania;
- Bank’s reserve requirements held with BoA are considered as non-liquid assets.

An analysis of the Bank’s expected timing of cash flows by simple remaining maturity is shown in the following tables.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 30 June 2016, the Bank's monetary assets and liabilities have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	235,668,267	-	-	-	-	**235,668,267**
Placement and balances with banks	145,721,282	6,123,961	2,496,385	-	-	**154,341,628**
Treasury bills available-for-sale	3,522,961	6,723,555	129,322,884	-	-	**139,569,400**
Trading and available-for-sale securities	9,692,885	31,209,751	180,241,139	472,635,957	173,626,632	**867,406,364**
Held-to-maturity securities	17,381,417	15,774,770	51,675,487	82,672,274	-	**167,503,948**
Loans to banks	22,401,965	66,275,543	170,642,739	27,783,887	-	**287,104,134**
Loans to customers	49,977,725	32,616,655	267,221,165	451,696,704	197,969,234	**999,481,483**
Investment in associates	-	-	-	-	1,333,936	**1,333,936**
Other assets	6,879,284	104,113	24,596,984	-	5,792,089	**37,372,470**
Total assets	**491,245,786**	**158,828,348**	**826,196,783**	**1,034,788,822**	**378,721,891**	**2,889,781,630**
Liabilities						
Customer deposits	766,892,332	466,711,547	744,967,323	263,877,736	23,900,046	**2,266,348,984**
Due to banks and financial institutions	225,977,656	2,258,952	4,853,711	9,301,745	500,393	**242,892,457**
Due to third parties	3,714,022	-	-	-	-	**3,714,022**
Deferred tax liabilities	-	-	-	195,095	-	**195,095**
Accruals and other liabilities	11,637,076	-	-	-	951,834	**12,588,910**
Subordinated debt	-	-	63,630	-	27,799,595	**27,863,225**
Total liabilities	**1,008,221,086**	**468,970,499**	**749,884,664**	**273,374,576**	**53,151,868**	**2,553,602,693**
Net Position	**(516,975,300)**	**(310,142,151)**	**76,312,119**	**761,414,246**	**325,570,023**	**336,178,937.00**
Cumulative Net Position	**(516,975,300)**	**(827,117,451)**	**(750,805,332)**	**10,608,914**	**336,178,937.00**	**-**

LRM reports are produced for each single currency Lek, Euro and USD and for the total statement of financial position as well. Maximum cumulative outflow limits, which are managed and monitored on a daily-basis, have been assigned for each of the above currencies.

5. Financial risk management (continued)

(c) Liquidity risk (continued)

As at 31 December 2015, the Bank's monetary assets and liabilities have remaining contractual maturities as follows:

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Assets						
Cash and balances with Central Bank	230,545,546	-	-	-	-	230,545,546
Placement and balances with banks	141,728,795	13,618,592	1,368,910	-	-	156,716,297
Treasury bills available-for-sale	43,835,340	64,221,257	61,372,123	-	-	169,428,720
Trading and available-for-sale securities	12,558,575	18,067,150	126,675,860	431,948,890	198,131,566	787,382,041
Held-to-maturity securities	9,038,113	3,050,479	45,657,579	98,812,776	-	156,558,947
Loans to banks	5,508,537	6,610,509	216,894,246	20,278,798	-	249,292,090
Loans to customers	44,025,371	30,190,365	252,992,004	401,117,232	188,681,958	917,006,930
Investment in associates	-	-	-	-	1,309,175	1,309,175
Other assets	6,910,639	51,228	27,022,727	-	6,039,488	40,024,082
Total assets	**494,150,916**	**135,809,580**	**731,983,449**	**952,157,696**	**394,162,187**	**2,708,263,828**
Liabilities						
Customer deposits	760,189,248	267,354,532	907,490,284	262,443,664	25,171,079	2,222,648,807
Due to banks and financial institutions	148,564,997	2,232,557	4,772,182	11,317,224	1,478,769	168,365,729
Due to third parties	2,828,259	-	-	-	-	2,828,259
Deferred tax liabilities	-	-	-	722,574	-	722,574
Accruals and other liabilities	13,526,437	-	-	-	962,041	14,488,478
Subordinated debt	-	-	7,806	-	27,283,568	27,291,374
Total liabilities	**925,108,941**	**269,587,089**	**912,270,272**	**274,483,462**	**54,895,457**	**2,436,345,221**
Net Position	**(430,958,025)**	**(133,777,509)**	**(180,286,823)**	**677,674,234**	**339,266,730**	**271,918,607**
Cumulative Net Position	**(430,958,025)**	**(564,735,534)**	**(745,022,357)**	**(67,348,123)**	**271,918,607**	

5. Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk

One of the key ratios used by the Bank for managing liquidity risk, which is required by Bank of Albania (BoA) at the same time, is the ratio of total liquid assets to total short-term liabilities on a daily basis. Based on the regulation No.71 dated 14.10.2009 "Liquidity risk management policy" amended with decision No. 75 dated 26.10.2011 the total liquidity ratio should be at a minimum of 25%, whereas the minimum of individual ratios for local and foreign currencies (FX) at 20%. Meanwhile, based on the latest changes of this regulation effective 15 May 2013, the minimum of total liquidity ratio is decreased to 20% and that of individual ratios to 15%.

As per this regulation, article 19 point 4, liquid assets are considered: cash balance, current accounts with BoA including mandatory reserve, T-bills and securities according to their remaining maturity and ability to turn into liquidity, where the non-resident counterparties' balances are discounted with the respective haircuts according to international credit rating. Short-term liabilities are considered all liabilities with remaining maturity up to one year.

Details of the reported Bank ratio at the reporting dates were as follows:

	30-Jun-2016	**31-Dec-2015**
Total Liquid Assets/Total Short Term Liabilities Ratio	32.72%	34.93%
Liquid Assets in local currency/Short Term Liabilities in local currency Ratio	48.34%	50.33%
Liquid Assets in foreign currency/Short Term Liabilities in foreign currency Ratio	18.95%	19.96%

(d) Market risk

1) Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions and also ensuring that these positions remain in compliance with the Bank of Albania guidelines and Bank's internal operational covenants. The Bank has in place procedures for the independent checking of open foreign currency positions.

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

The following tables present the USD equivalent amounts of monetary assets and liabilities by currency as at 30 June 2016 and 31 December 2015:

30 June 2016	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	101,324,180	15,212,335	116,151,809	2,979,943	235,668,267
Placements and balances with banks	779,259	56,704,363	74,263,689	22,594,317	154,341,628
Treasury bills available-for-sale	125,660,342	-	13,909,058	-	139,569,400
Trading and available-for-sale securities	555,152,800	144,644,471	139,383,837	28,225,256	867,406,364
Held-to-maturity securities	567,945	61,459,981	105,476,022	-	167,503,948
Loans to banks	-	59,166,288	227,937,846	-	287,104,134
Loans to customers	456,541,576	88,089,497	454,609,265	241,145	999,481,483
Investment in associates	-	-	1,333,936	-	1,333,936
Other assets	23,187,447	261,925	11,827,979	2,095,119	37,372,470
Total assets	**1,263,213,549**	**425,538,860**	**1,144,893,441**	**56,135,780**	**2,889,781,630**
Foreign exchange contracts	1,558,057	44,195,541	30,401,085	12,299,590	88,454,273
Liabilities					
Customer deposits	1,088,924,347	116,431,200	1,029,985,868	31,007,569	2,266,348,984
Due to banks and financial institutions	181,751,399	2,542,152	50,653,633	7,945,273	242,892,457
Due to third parties	3,714,022	-	-	-	3,714,022
Accruals and other liabilities	5,052,268	4,265,075	1,907,379	1,364,188	12,588,910
Subordinated debt	-	-	27,863,225	-	27,863,225
Total liabilities	**1,279,442,036**	**123,238,427**	**1,110,410,105**	**40,317,030**	**2,553,407,598**
Foreign exchange contracts	1,762,991	37,641,778	24,146,452	24,903,052	88,454,273
Net position (GAP)	**(16,443,421)**	**308,854,196**	**40,737,969**	**3,215,288**	**336,374,032**
Total assets / Total liabilities	98.72%	291.98%	103.59%	104.93%	112.73%
GAP / FX denominated assets		0.66	0.035	0.047	0.11
Sensitivity analysis					
Lek depreciates by 10%		28,077,654	3,703,452	292,299	32,073,405
Lek depreciates by 5%		14,707,343	1,939,903	153,109	16,800,355
Lek appreciates by 5%		(16,255,484)	(2,144,103)	(169,226)	(18,568,813)
Lek appreciates by 10%		(34,317,133)	(4,526,441)	(357,254)	(39,200,828)

5. Financial risk management (continued)

(d) Market risk (continued)

1) Foreign currency risk (continued)

31 December 2015	*Lek*	*USD*	*Euro*	*Other*	*Total*
Assets			*(In USD equivalent)*		
Cash and balances with Central Bank	84,089,670	12,278,026	130,618,955	3,558,895	230,545,546
Placements and balances with banks	789,630	57,374,235	74,186,555	24,365,877	156,716,297
Treasury bills available-for-sale	159,322,598	-	10,106,122	-	169,428,720
Trading and available-for-sale securities	496,219,181	117,357,336	144,876,941	28,928,583	787,382,041
Held-to-maturity securities	-	61,645,916	94,913,031	-	156,558,947
Loans to banks	-	32,110,848	217,181,242	-	249,292,090
Loans to customers	434,662,210	73,141,019	408,918,517	285,184	917,006,930
Investment in associates	-	-	1,309,175	-	1,309,175
Other assets	27,506,229	337,532	10,269,307	1,911,014	40,024,082
Total assets	**1,202,589,518**	**354,244,912**	**1,092,379,845**	**59,049,553**	**2,708,263,828**
Foreign exchange contracts	**2,216,694**	**36,958,293**	**26,706,694**	**26,281,620**	**92,163,301**
Liabilities					
Customer deposits	1,084,630,780	111,081,962	999,161,881	27,774,184	2,222,648,807
Due to banks and financial institutions	130,457,292	2,532,650	19,967,367	15,408,420	168,365,729
Due to third parties	2,828,259	-	-	-	2,828,259
Accruals and other liabilities	6,878,695	5,184,865	1,848,947	575,971	14,488,478
Subordinated debt	-	-	27,291,374	-	27,291,374
Total liabilities	**1,224,795,026**	**118,799,477**	**1,048,269,569**	**43,758,575**	**2,435,622,647**
Foreign exchange contracts	**1,006,491**	**27,481,911**	**29,877,957**	**33,796,942**	**92,163,301**
Net position (GAP)	**(20,995,305)**	**244,921,817**	**40,939,013**	**7,775,656**	**272,641,181**
Total assets / Total liabilities	98.29%	267.43%	103.80%	110.03%	110.79%
GAP / FX denominated assets		0.63	0.04	0.09	0.10
Sensitivity analysis					
Lek depreciates by 10%		22,265,620	3,721,728	706,878	26,694,226
Lek depreciates by 5%		11,662,944	1,949,477	370,269	13,982,690
Lek appreciates by 5%		(12,890,622)	(2,154,685)	(409,245)	(15,454,552)
Lek appreciates by 10%		(27,213,535)	(4,548,779)	(863,962)	(32,626,276)

2) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Treasury Department of the Bank manages the interest rate risk through monitoring the market conditions and taking necessary re-pricing or reallocation decisions with the approval of the Asset and Liability Committee. The sensitivity analysis has been determined based on the exposure to interest rates for both financial assets and financial liabilities assuming that their amounts outstanding at the reporting date were outstanding for the whole year.

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 30 June 2016 are as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	0.88%	N/A	N/A
Placement and balances with banks	1.55%	0.63%	0.43%
Treasury bills available-for-sale	1.90%	N/A	0.94%
Investment securities	5.96%	4.25%	3.89%
Loans to banks	N/A	2.66%	0.88%
Loans to customers	5.98%	6.89%	6.72%
Liabilities			
Customer deposits	1.46%	0.65%	0.60%
Due to banks and financial institutions	1.23%	0.74%	1.47%
Subordinated debt	-	-	5.15%

The average effective yields of significant categories of financial assets and liabilities of the Bank as at 31 December 2015 were as follows:

	Lek	*USD*	*Euro*
Assets			
Cash and balances with Central Bank	1.23%	N/A	N/A
Placement and balances with banks	2.05%	0.28%	0.91%
Treasury bills available-for-sale	3.45%	N/A	1.68%
Investment securities	6.44%	4.23%	3.84%
Loans to banks	N/A	2.35%	0.75%
Loans to customers	6.61%	7.33%	7.11%
Liabilities			
Customer deposits	1.83%	0.70%	0.73%
Due to banks and financial institutions	1.80%	0.74%	2.54%
Subordinated debt	-	-	5.15%

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of interest bearing financial assets and liabilities of the Bank as at 30 June 2016 are as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	*Total*
Cash and balances with Central Bank	235,668,267	-	-	-	-	235,668,267
Placement and balances with banks	145,721,282	6,123,961	2,496,385	-	-	154,341,628
Treasury bills available-for-sale	3,522,961	6,723,555	129,322,884	-	-	139,569,400
Trading and available-for-sale securities	10,125,081	32,478,941	180,508,047	470,794,999	173,499,296	867,406,364
Held-to-maturity securities	17,399,000	15,903,816	51,655,521	82,545,611	-	167,503,948
Loans to banks	68,377,391	153,206,757	65,519,986	-	-	287,104,134
Loans to customers	25,761,202	26,250,482	849,995,408	80,932,696	16,541,695	999,481,483
Total	**506,575,184**	**240,687,512**	**1,279,498,231**	**634,273,306**	**190,040,991**	**2,851,075,224**
Liabilities						
Customer deposits	766,892,332	466,711,547	744,967,323	263,877,736	23,900,046	2,266,348,984
Due to banks and financial institutions	225,977,656	6,706,888	10,207,913	-	-	242,892,457
Subordinated debt	-	-	27,863,225	-	-	27,863,225
Total	**992,869,988**	**473,418,435**	**783,038,461**	**263,877,736**	**23,900,046**	**2,537,104,666**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

The interest re-pricing dates of significant categories of financial assets and liabilities of the Bank as at 31 December 2015 were as follows:

	Up to 1 month	*1-3 months*	*3-12 months*	*1-5 years*	*Over 5 year*	*Total*
Cash and balances with Central Bank	230,545,546	-	-	-	-	230,545,546
Placement and balances with banks	141,728,795	13,618,592	1,368,910	-	-	156,716,297
Treasury bills available-for-sale	43,835,340	64,221,257	61,372,123	-	-	169,428,720
Trading and available-for-sale securities	14,315,449	16,869,321	129,192,309	431,065,125	195,939,837	787,382,041
Held-to-maturity securities	9,038,113	3,237,009	46,159,399	98,124,426	-	156,558,947
Loans to banks	49,886,917	138,944,801	60,460,372	-	-	249,292,090
Loans to customers	16,616,207	19,051,065	230,555,732	639,905,398	10,878,528	917,006,930
Total	**505,966,367**	**255,942,045**	**529,108,845**	**1,169,094,949**	**206,818,365**	**2,666,930,571**
Liabilities						
Customer deposits	760,189,248	267,354,532	907,490,284	262,443,664	25,171,079	2,222,648,807
Due to banks and financial institutions	148,564,997	8,780,613	11,020,119	-	-	168,365,729
Subordinated debt	-	-	27,291,374	-	-	27,291,374
Total	**908,754,245**	**276,135,145**	**945,801,777**	**262,443,664**	**25,171,079**	**2,418,305,910**

5. Financial risk management (continued)

(d) Market risk (continued)

2) Interest rate risk (continued)

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. The following is a stipulation of effects of changes in interest rate to the net profit, when the change is applied to the GAP position as per re-pricing terms presented in note above, assuming all the other variables are held constant:

	30 June 2016		***31 December 2015***	
	Up to 1 year	**Over 1 year**	**Up to 1 year**	**Over 1 year**
Interest rate increases by 2%	3,741,028	14,471,759	(8,972,964)	12,793,008
Interest rate increases by 1.5%	2,805,771	10,853,819	(6,729,723)	9,594,756
Interest rate increases by 1%	1,870,514	7,235,879	(4,486,482)	6,396,504
Interest rate decreases by 1%	(1,870,514)	(7,235,879)	4,486,482	(6,396,504)
Interest rate decreases by 1.5%	(2,805,771)	(10,853,819)	6,729,723	(9,594,756)
Interest rate decreases by 2%	(3,741,028)	(14,471,759)	8,972,964	(12,793,008)

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank’s operations.

The Bank’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank’s reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The implementation of controls to address operational risk is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with internal standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

5. Financial risk management (continued)

(f) Capital management

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

Regulatory capital

The Bank monitors the adequacy of its capital using, among other measures, the rules and ratios established by the Albanian regulator, the Bank of Albania ("BoA"), which ultimately determines the statutory capital required to underpin its business. The new regulations "On the capital adequacy ratio" and "On the regulatory capital" entered into force in 2015 are issued pursuant to Law No. 8269 date 23.12.1997 "On the Bank of Albania", and Law No. 9662 date 18.12.2006 "On Banks in the Republic of Albania".

Capital Adequacy Ratio

The Capital Adequacy Ratio is the proportion of the regulatory capital to risk weighted exposures, calculated as the sum of the risk-weighted exposure amounts, on- and off-balance sheet for credit risk and for credit counterparty risk, capital requirement for market and operational risk.

The minimum Regulatory Capital Ratio against the risk weighted exposures required by Bank of Albania is 12%. The minimum Tier 1 Capital Ratio is 6.0% and the minimum Common Equity Tier 1 Ratio is 4.5%.

In June 2016, BKT has reported the following ratios:

- Regulatory Capital Ratio 14.23%;
- Tier 1 Capital Ratio 12.89%;
- Common Equity Tier 1 Ratio 12.89%.

Risk-Weighted Assets (RWAs)

For calculation of credit risk, exposures, on- and off-balance sheet are classified in 15 exposure classes. In general terms, client/ issuer type, loan destination and collateral are the main determinants of the exposure class. Each exposure class has its own specific requirements on how to assess the appropriate risk weight and respective risk weighted exposures. For credit risk and counterparty risk is applied the Standardised Approach. Market risk capital requirements are calculated in case the Bank has a Trading portfolio that fulfils the requirements defined by the regulation and/ or a total net open currency position that is larger than the defined minimum threshold. Operational risk capital requirement is calculated based on the Basic Indicator Approach.

Compliance

The Bank and its individually regulated operations have complied with all internally and externally imposed capital requirements throughout the period.

6. Segmental reporting

Geographical Segments	30 June 2016			31 December 2015		
	Albania	**Kosovo**	**Combined**	**Albania**	**Kosovo**	**Combined**
Assets						
Cash and balances with Central Bank	196,192,781	39,475,486	235,668,267	174,510,043	56,035,503	230,545,546
Placement and balances with banks	147,950,162	6,391,466	154,341,628	156,526,081	190,216	156,716,297
Treasury bills available-for-sale	125,704,495	13,864,905	139,569,400	159,355,959	10,072,761	169,428,720
Trading and available-for-sale securities	842,198,150	25,208,214	867,406,364	757,401,849	29,980,192	787,382,041
Held-to-maturity securities	167,503,948	-	167,503,948	156,558,947	-	156,558,947
Loans to banks	287,104,134	-	287,104,134	249,292,090	-	249,292,090
Loans to customers	811,730,208	187,751,275	999,481,483	764,912,886	152,094,044	917,006,930
Investment in associates	1,333,936	-	1,333,936	1,309,175	-	1,309,175
Property and equipment	17,337,945	2,667,430	20,005,375	17,420,489	3,025,301	20,445,790
Intangible assets	1,118,286	-	1,118,286	1,203,635	-	1,203,635
Other assets	-	53,856,553	53,856,553	-	64,483,981	64,483,981
Total assets	**2,598,174,045**	**329,215,329**	**2,927,389,374**	**2,438,491,154**	**315,881,998**	**2,754,373,152**
Liabilities and shareholders' equity						
Liabilities						
Customer deposits	1,981,797,575	284,551,409	2,266,348,984	1,948,915,872	273,732,935	2,222,648,807
Due to banks and financial institutions	233,057,295	9,835,162	242,892,457	157,884,279	10,481,450	168,365,729
Due to third parties	3,714,022	-	3,714,022	2,828,259	-	2,828,259
Deferred tax liabilities	195,095	-	195,095	722,574	-	722,574
Accruals and other liabilities	26,612,177	2,460,816	29,072,993	36,319,807	2,628,570	38,948,377
Subordinated debt	27,863,225	-	27,863,225	27,291,374	-	27,291,374
Total liabilities	**2,273,239,389**	**296,847,387**	**2,570,086,776**	**2,173,962,165**	**286,842,955**	**2,460,805,120**
Shareholders' equity						
Share capital			250,000,000			206,911,900
Translation reserve			81,197			(2,229)
Fair value reserve			33,293,379			976,965
Retained earnings			73,928,022			85,681,396
Total shareholders' equity			**357,302,598**			**293,568,032**
Total liabilities and shareholders' equity			**2,927,389,374**			**2,754,373,152**

Within "Other assets" for Kosovo Branch, it is included the amount of USD 50,528,638, which represents intragroup transactions between Head Office/Branches in Albania and Kosovo Branch as at 30 June 2016, and has been eliminated on combination (31 December 2015: USD 61,888,412).

6. Segmental reporting (continued)

Geographical Segments	30 June 2016			30 June 2015		
	Albania	**Kosovo**	**Combined**	**Albania**	**Kosovo**	**Combined**
Interest						
Interest income	53,307,646	7,965,185	61,272,831	53,641,026	8,325,422	61,966,448
Interest expense	(12,472,288)	(1,732,238)	(14,204,526)	(16,791,046)	(1,512,799)	(18,303,845)
Net interest margin	**40,835,358**	**6,232,947**	**47,068,305**	**36,849,980**	**6,812,623**	**43,662,603**
Non-interest income, net						
Fees and commissions, net	5,916,294	1,510,236	7,426,530	4,282,399	1,387,072	5,669,471
Foreign exchange revaluation (loss)/gain, net	(766,183)	(469)	(766,652)	3,741,107	1,757	3,742,864
Foreign exchange trading activities loss, net	1,309,492	(42,004)	1,267,488	(277,853)	104,467	(173,386)
Securities trading gain (loss), net	6,606,152	-	6,606,152	105,674	-	105,674
Other income, net	(944,539)	-	(944,539)	(2,145,400)	28,909	(2,116,491)
Total non-interest income, net	**12,121,216**	**1,467,763**	**13,588,979**	**5,705,927**	**1,522,205**	**7,228,132**
Operating expenses						
Personnel	(6,245,495)	(2,064,361)	(8,309,856)	(6,154,348)	(2,108,168)	(8,262,516)
Administrative	(8,496,464)	(2,282,911)	(10,779,375)	(7,014,502)	(2,004,368)	(9,018,870)
Depreciation and amortization	(1,472,783)	(589,536)	(2,062,319)	(1,477,797)	(626,033)	(2,103,830)
Total operating expenses	**(16,214,742)**	**(4,936,808)**	**(21,151,550)**	**(14,646,647)**	**(4,738,569)**	**(19,385,216)**
Impairment of loans	(3,863,065)	(249,512)	(4,112,577)	(2,119,416)	(583,252)	(2,702,668)
Profit before taxes	**32,878,767**	**2,514,390**	**35,393,157**	**25,789,844**	**3,013,007**	**28,802,851**
Income tax	(5,230,928)	(309,059)	(5,539,987)	(4,363,361)	(5,882)	(4,369,243)
Net profit for the year	**27,647,839**	**2,205,331**	**29,853,170**	**21,426,483**	**3,007,125**	**24,433,608**

Interest income of USD 699,188 (30 June 2015: USD 783,691), which represents interest earned from Kosovo Branch on intra-group balances was eliminated on combination.

7. Cash and balances with Central Bank

Cash and balances with Central Bank as at 30 June 2016 and 31 December 2015 are detailed as follows:

	30 June 2016	31 December 2015
Cash on hand	37,604,244	38,331,976
Deposits with the Central Bank of Kosovo	28,420,858	42,592,292
Bank of Albania		
Current account	949,117	22,628
Statutory reserve	168,679,057	149,575,010
Accrued interest	14,991	23,640
	169,643,165	149,621,278
	235,668,267	**230,545,546**

In accordance with the Bank of Albania's requirement relating to the deposit reserve, the Bank should maintain a minimum of 10% of customer deposits in Albania with the Bank of Albania as a statutory reserve account, which during the month can be decreased to 60% of this level, provided that the monthly average is maintained.

Deposits with the Central Bank of Kosovo include the statutory reserve of 10% of customer deposits in Kosovo.

Cash and cash equivalents as at 30 June 2016 and 31 December 2015 are presented as follows:

	30 June 2016	31 December 2015
Cash and balances with Central Bank	235,668,267	230,545,546
Statutory reserve in Albania	(168,679,057)	(149,575,010)
Statutory reserve in Kosovo	(20,519,805)	(19,151,800)
Current accounts with banks	46,642,087	49,949,401
Placements with maturities of 3 months or less	87,122,151	88,390,883
	180,233,643	**200,159,020**

8. Placements and balances with banks

Placements and balances with banks as at 30 June 2016 and 31 December 2015 consisted as follows:

	30 June 2016	31 December 2015
Placements	102,042,769	100,738,667
Cash collateral held by financial institutions	5,529,470	5,887,207
Current accounts	46,642,087	49,949,401
Accrued interest	127,302	141,022
	154,341,628	**156,716,297**

Placements are held with non-resident banks from Organisation for Economic Cooperation and Development ("OECD") countries and have contractual maturities up to 1 year. Current accounts represent balances with correspondent banks in the OECD countries.

Cash collateral represents mostly collateral held by financial institutions in relation to letters of credit issued to the Bank's clients and cash deposits that secure risks in relation to the credit cards activity of the Bank.

9. Treasury bills available-for-sale

Treasury bills available-for-sale by original maturity as at 30 June 2016 and 31 December 2015 are presented as follows:

	30 June 2016			
	Purchase value	Amortized discount	Marked to market gain (loss)	Fair value
3 months	3,333,957	1,731	22	3,335,710
6 months	313,771	278	52	314,101
12 months	134,574,767	953,536	391,286	135,919,589
	138,222,495	**955,545**	**391,360**	**139,569,400**

	31 December 2015			
	Purchase value	Amortized discount	Marked to market gain (loss)	Fair value
3 months	-	-	-	-
6 months	5,792,769	29,128	2,619	5,824,516
12 months	159,502,362	3,778,664	323,178	163,604,204
	165,295,131	**3,807,792**	**325,797**	**169,428,720**

10. Trading and available-for-sale securities

The Bank's Trading and available-for-sale securities portfolio as at 30 June 2016 includes financial assets available for sale amounting USD 867,406,364 (31 December 2015: USD 784,404,120) and does not include any financial assets held for trading (31 December 2015: 2,977,921).

Available-for-sale as at 30 June 2016 comprise as follows:

Type	**Nominal value**	**Unamortized premium / (discount)**	**Accrued interest**	**Marked to market gain / (loss)**	**Fair value**
Lek denominated	514,582,607	1,614,159	8,062,898	30,893,136	555,152,800
USD denominated	140,466,574	1,057,355	1,885,193	1,235,349	144,644,471
EUR denominated	135,894,873	(188,821)	2,115,165	1,562,620	139,383,837
TRY denominated	9,405,473	-	3,427,542	(103,615)	12,729,400
CAD denominated	10,335,411	-	-	39,692	10,375,103
GBP denominated	5,234,041	(58,777)	36,905	(119,577)	5,092,592
SEK denominated	72,673	-	-	(44,512)	28,161
	815,991,652	**2,423,916**	**15,527,703**	**33,463,093**	**867,406,364**

Trading and available-for-sale as at 31 December 2015 comprise as follows:

Type	**Nominal value**	**Unamortized premium / (discount)**	**Accrued interest**	**Marked to market gain / (loss)**	**Fair value**
Lek denominated	482,084,045	202,677	7,818,435	6,114,024	496,219,181
USD denominated	115,319,696	1,698,879	1,571,650	(1,232,889)	117,357,336
EUR denominated	142,119,117	2,845,016	2,263,985	(2,351,177)	144,876,941
TRY denominated	13,535,006	-	3,894,863	(143,104)	17,286,765
CAD denominated	9,626,229	-	-	(1,782,725)	7,843,504
GBP denominated	3,551,129	32,554	123,081	58,845	3,765,609
SEK denominated	73,260	-	-	(40,555)	32,705
	766,308,482	**4,779,126**	**15,672,014**	**622,419**	**787,382,041**

11. Investment securities held-to-maturity

Held-to-maturity securities as at 30 June 2016 comprise as follows:

Type	**Nominal value**	**Unamortized premium / (discount)**	**Accrued interest**	**Net value**
Lek denominated	566,802	-	1,143	567,945
USD denominated	60,201,933	547,458	710,590	61,459,981
EUR denominated	103,452,011	(105,115)	2,129,126	105,476,022
	164,220,746	**442,343**	**2,840,859**	**167,503,948**

Held-to-maturity securities as at 31 December 2015 comprise as follows:

Type	**Nominal value**	**Unamortized premium / (discount)**	**Accrued interest**	**Net value**
Lek denominated	-	-	-	-
USD denominated	60,115,116	803,246	727,553	61,645,915
EUR denominated	93,819,985	(111,267)	1,204,314	94,913,032
	153,935,101	**691,979**	**1,931,867**	**156,558,947**

12. Loans to banks

The Bank has purchased syndicated loans of some non-resident banks as at 30 June 2016, with ratings as follows:

Moody's ratings or equivalent	**30 June 2016**	**31 December 2015**
Rated A3 to A2	9,534,799	-
Rated Baa3 to Baa2	213,416,588	208,885,735
Rated Ba3 to Ba1	13,344,017	21,820,425
Rated B2 to B1	2,500,287	-
Rated Caa2	3,348,461	-
Not rated	44,959,982	18,585,930
	287,104,134	**249,292,090**

Loans to banks respresent short term loans purchased in primary and secondary market with a maximum remaining maturity up to 1 year.

13. Loans to customers

Loans to customers consisted of the following:

	30 June 2016	**31 December 2015**
Loans to customers, gross	1,027,408,313	940,917,270
Accrued interest	7,823,369	6,964,735
Less allowances for impairment on loans	(31,426,942)	(26,801,415)
Less unamortized deferred fee income	(4,323,257)	(4,073,660)
	999,481,483	**917,006,930**

13. Loans to customers (continued)

Movements in the allowance for impairment on loans:

	2016	2015
At 1 January	26,801,415	27,904,718
Impairment charge for the period	4,112,577	4,861,058
Provision reversal of written off loans	-	(3,623,349)
Translation difference	512,950	(2,341,012)
At the end of the period	**31,426,942**	**26,801,415**

The impairment charge for the six-month period ended 30 June 2015 was USD 2,702,668.

All the loans are denominated in Lek, Euro, USD and CHF and bear interest at the following rates:

Loans in Lek	0.50% to 25.00%
Loans in Euro	0.50% to 22.00%
Loans in USD	1.75% to 11.50%
Loans in CHF	4.50% to 5.00%
Loans in GBP	3.00% to 3.00%

The Bank has granted few loans with interest rates at the minimum limit shown above, which are lower than the rates that are generally offered by the Bank, and are covered by cash collaterals or are granted to personnel under special conditions.

The classification of business loans by industry is as follows:

	30 June 2016		31 December 2015	
	USD	%	USD	%
Wholesale Trade	114,972,378	16%	110,038,768	17%
Electricity, Gas and Water Supply	98,595,719	14%	91,203,573	14%
Real Estate, Renting and Business Activity	75,149,749	10%	72,935,720	11%
Construction	68,709,546	10%	52,111,074	8%
Retail Trade	47,224,380	7%	36,093,907	6%
Financial Intermediation	41,911,370	6%	35,115,521	5%
Other Community, Social and Personal Activities	31,619,342	4%	29,519,284	5%
Manufacturing of Other Non-metallic Products	28,592,882	4%	25,665,468	4%
Manufacturing of Basic Metals and Fabricated Metal Products	13,904,372	2%	13,667,737	2%
Education	12,063,626	2%	11,874,438	2%
Manufacture of Food Products, Beverages	11,261,106	1%	10,540,973	2%
Hotels and Restaurants	11,113,052	1%	9,648,762	1%
Transport, Storage and Communication	10,834,911	1%	9,495,242	1%
Personal Needs	10,374,824	1%	9,186,429	1%
Mining and Quarrying	8,645,106	1%	8,707,851	1%
Agriculture, Hunting and Forestry	7,009,702	1%	4,865,162	1%
Manufacture of Rubber and Plastic Products	4,744,759	1%	4,580,607	1%
Health and Social Work	4,047,194	1%	3,705,932	1%
Manufacture of Pulp, Paper and Paper Products	3,256,147	1%	3,325,148	1%
Manufacture of Wood and Wood Products	1,939,086	1%	2,161,081	1%
Other Sectors	104,477,370	15%	104,561,468	15%
	710,446,621	**100%**	**649,004,145**	**100%**

13. Loans to customers (continued)

The classification of retail loans by type is as follows:

	30 June 2016		31 December 2015	
	USD	**%**	**USD**	**%**
Home purchase	197,429,139	62%	186,008,999	63%
Super Loan	38,817,619	12%	29,604,450	10%
Home improvement	23,575,115	7%	23,113,127	8%
Overdraft and credit cards	18,039,021	5%	16,533,863	5%
Shop purchase	13,986,716	4%	13,966,128	5%
Home reconstruction	6,365,588	2%	6,361,085	2%
Home advances	1,961,686	1%	2,106,186	1%
Car purchase	506,968	1%	403,349	1%
Technical equipment	449,774	1%	416,359	1%
Other types	15,830,066	5%	13,399,579	4%
	316,961,692	**100%**	**291,913,125**	**100%**

14. Investment in associates

Investment in associates of USD 1,333,936 (31 December 2015: 1,309,175) represents the equivalent amount of an investment of EUR 1,199,600 into the share capital of Albania Leasing Sh.a (the "Company") at a participation ratio of 29.99%. The Company was established in 2 August 2013 (inception date) as a Joint Stock Company. The Company obtained the license from the Bank of Albania on 21 April 2014 and started its leasing activity in June 2014.

15. Property and equipment

Property and equipment as at 30 June 2016 and 31 December 2015 are composed as follows:

	Land, buildings and leasehold improvements	**Vehicles and other equipment**	**Computers and electronic equipment**	**Office equipment**	**Total**
Gross value					
At 1 January 2015	**28,721,867**	**5,755,902**	**15,891,801**	**2,167,327**	**52,536,897**
Additions	172,129	79,408	1,426,729	63,010	1,741,276
Disposals / transfers	(14,504)	(33,721)	(9,619)	-	(57,844)
Translation difference	(2,477,648)	(513,158)	(1,425,012)	(192,784)	(4,608,602)
At 31 December 2015	**26,401,844**	**5,288,431**	**15,883,899**	**2,037,553**	**49,611,727**
Additions	212,453	98,481	504,304	76,996	**892,234**
Disposals / transfers	-	(88,089)	(6,441)	(3,813)	**(98,343)**
Translation difference	490,758	98,598	296,253	37,975	**923,584**
At 30 June 2016	**27,105,055**	**5,397,421**	**16,678,015**	**2,148,711**	**51,329,202**
Accumulated depreciation					
At 1 January 2015	**(10,134,766)**	**(4,426,008)**	**(12,235,252)**	**(1,557,473)**	**(28,353,499)**
Charge for the year	(1,187,815)	(436,735)	(1,538,356)	(193,145)	(3,356,051)
Disposals / write offs	5,922	33,226	9,580	-	48,728
Translation difference	877,897	393,992	1,084,836	138,160	2,494,885
At 31 December 2015	**(10,438,762)**	**(4,435,525)**	**(12,679,192)**	**(1,612,458)**	**(29,165,937)**
Charge for the period	(612,333)	(196,258)	(744,588)	(98,065)	**(1,651,244)**
Disposals / write offs	-	32,662	6,441	3,813	**42,916**
Translation difference	(196,361)	(83,476)	(239,324)	(30,401)	**(549,562)**
At 30 June 2016	**(11,247,456)**	**(4,682,597)**	**(13,656,663)**	**(1,737,111)**	**(31,323,827)**
Net book value					
At 1 January 2015	**18,587,101**	**1,329,894**	**3,656,549**	**609,854**	**24,183,398**
At 31 December 2015	**15,963,082**	**852,906**	**3,204,707**	**425,095**	**20,445,790**
At 30 June 2016	**15,857,599**	**714,824**	**3,021,352**	**411,600**	**20,005,375**

As at 30 June 2016, the gross value of the assets which were fully depreciated was USD 16,375,876 (31 December 2015: USD 15,351,127).

16. Intangible assets

Intangible assets as of 30 June 2016 and 31 December 2015 are composed as follows:

	Software
Gross value	
At 1 January 2015	**6,712,211**
Additions	626,656
Translation difference	(563,486)
At 31 December 2015	**6,775,381**
Additions	178,624
Translation difference	125,633
At 30 June 2016	**7,079,638**
Accumulated depreciation	
At 1 January 2015	**(5,481,621)**
Charge for the year	(549,894)
Translation difference	459,769
At 31 December 2015	**(5,571,746)**
Charge for the period	(285,295)
Translation difference	(104,311)
At 30 June 2016	**(5,961,352)**
Net book value	
At 1 January 2015	**1,230,590**
At 31 December 2015	**1,203,635**
At 30 June 2016	**1,118,286**

Software represents mainly the upgraded Bank's operating and accounting system, and the license and software for providing internet and mobile banking services.

17. Other assets

Other assets as at 30 June 2016 and 31 December 2015 are as follows:

	30 June 2016	**31 December 2015**
Assets acquired through legal process	26,817,696	31,274,277
Administration costs receivable from borrowers	2,589,449	2,476,989
Payments in transit	1,777,833	2,119,682
Prepaid expenses	1,475,437	757,318
Inventory	491,667	473,989
Foreign exchange contracts revaluation gain	371,414	-
Advances to suppliers	206,380	201,404
Other debtors, net	3,642,594	2,720,423
	37,372,470	**40,024,082**

Assets acquired through legal process represent the repossessed collaterals of some unrecoverable loans, the ownership of which was taken on behalf of the Bank. Repossessed collateral represents real estate assets acquired by the Group in settlement of overdue loans. The Group expects to dispose of the assets in the foreseeable future. The Bank has established an Asset Sale Committee, responsible for the disposal of these assets.

17. Other assets (continued)

The assets do not meet the definition of non-current assets held for sale, and are classified as inventories in accordance with IAS 2 “Inventories”. The assets were initially recognised at fair value when acquired.

A number of properties with a carrying amount of USD 5,792,089 (31 December 2015: USD 6,039,488) which are leased to third parties, were reclassified in 2012 from property and equipment to assets acquired through legal process (investment property). The depreciation charge of the leased assets for the six-month period ended 30 June 2016 was USD 125,781 (30 June 2015: USD 126,171). Subsequent renewals are negotiated with the lessee on an annual basis. Rental income from investment property of USD 95,734 (30 June 2015: USD 84,869) is recognised in other income.

Payments in transit represent customers’ payments drawn on other banks that are in the process of being collected.

Other debtors, net are composed as follows:

	30 June 2016	31 December 2015
Other debtors	5,350,197	3,937,876
Provision for other debtors	(1,707,603)	(1,217,453)
Other debtors, net	**3,642,594**	**2,720,423**

Provision for other debtors is the specific provision of TRL 4,920,415 (equivalent of USD 1,707,603) for the debt under collection amounting to TRL 9,840,829 (equivalent of USD 3,415,206).

The debt under collection represents the uncollected amount of cheques issued from non-resident counterparties.
The movement in provision for other debtors is detailed as below:

	30 June 2016	31 December 2015
Balance at 1 January	(1,217,453)	-
Provision charge	(462,975)	(1,368,417)
Translation difference	(27,175)	150,964
Balance at the end of the period	**(1,707,603)**	**(1,217,453)**

18. Customer deposits

Customer deposits as at 30 June 2016 and 31 December 2015 are composed as follows:

	30 June 2016	31 December 2015
Current accounts:		
Individuals	226,477,365	199,134,397
Private enterprises	192,370,473	198,430,387
State owned entities	28,373,776	31,792,919
	447,221,614	**429,357,703**
Deposits:		
Individuals	1,669,509,358	1,628,151,201
Private enterprises	87,371,429	99,794,968
State owned entities	19,025,696	19,471,358
	1,775,906,483	**1,747,417,527**
Other customer accounts:		
Individuals	5,345,856	6,469,023
Private enterprises	37,196,201	38,715,383
State owned entities	678,830	689,171
	43,220,887	**45,873,577**
	2,266,348,984	**2,222,648,807**

18. Customer deposits (continued)

Current accounts and deposits can be further analysed as follows:

	30 June 2016			31 December 2015		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Current accounts	**193,479,932**	**253,741,682**	**447,221,614**	**196,076,098**	**233,281,605**	**429,357,703**
Deposits						
On demand	14,559,380	63,649,671	**78,209,051**	9,691,780	53,395,905	**63,087,685**
Up to 39 days	26,924,435	45,569,667	**72,494,102**	22,686,160	43,338,054	**66,024,214**
40-99 days	44,525,418	52,431,053	**96,956,471**	45,987,538	57,465,204	**103,452,742**
100-189 days	90,469,611	85,644,663	**176,114,274**	93,794,841	81,311,029	**175,105,870**
190- 370 days	497,874,799	467,037,850	**964,912,649**	503,697,488	454,960,228	**958,657,716**
371 days and over	194,046,643	180,184,165	**374,230,808**	187,050,290	180,309,343	**367,359,633**
Accrued interest on deposits	8,937,451	4,051,677	**12,989,128**	9,798,932	3,930,735	**13,729,667**
Total deposits	**877,337,737**	**898,568,746**	**1,775,906,483**	**872,707,029**	**874,710,498**	**1,747,417,527**
Other customer accounts	**18,106,678**	**25,114,209**	**43,220,887**	**15,847,653**	**30,025,924**	**45,873,577**
Total customer deposits	**1,088,924,347**	**1,177,424,637**	**2,266,348,984**	**1,084,630,780**	**1,138,018,027**	**2,222,648,807**

Other customer accounts are composed as follows:

	30 June 2016			31 December 2015		
	Local currency	**Foreign currency**	**Total**	**Local currency**	**Foreign currency**	**Total**
Guarantees for letters of credit	-	4,448	**4,448**	39,749	800,927	**840,676**
Escrow accounts	10,393,756	13,102,253	**23,496,009**	8,388,305	14,579,842	**22,968,147**
Payment orders to be executed	528,556	659,986	**1,188,542**	480,452	4,427,800	**4,908,252**
Other	7,184,366	11,347,522	**18,531,888**	6,939,147	10,217,355	**17,156,502**
	18,106,678	**25,114,209**	**43,220,887**	**15,847,653**	**30,025,924**	**45,873,577**

Deposit guarantee for letters of credit represent the cash collateral held by the Bank against similar collateral provided by the Bank to correspondent banks for letters of credit opened on behalf of its customers.

Escrow accounts balance represents sums blocked until the completion of an operation or the extinction of a risk. Amounts registered in these accounts mostly relate to cash coverage received from customers due to the issuance of bid and performance bonds by the bank or due to treasury bill transactions with Bank of Albania intermediated by the Bank.

Other represents deposits that are pending to be allocated into the relevant deposit category the next business day (value date).

19. Due to banks and financial institutions

Due to banks and financial institutions as at 30 June 2016 and 31 December 2015 consisted as follows:

	30 June 2016	31 December 2015
Treasury bills sold under Repo agreements with Central Bank	133,423,267	67,104,243
Deposits from banks	86,511,888	73,320,613
FX securities sold under Repo agreement	5,525,580	5,435,353
Current accounts of non-resident banks	1,119,338	3,303,595
Current accounts of resident banks	2,763	2,733
Borrowing from financial institutions	16,309,621	19,199,192
	242,892,457	**168,365,729**

Treasury bills, Albanian Government Bonds and FX securities with a total value of USD 161,784,615 (31 December 2015: USD 92,614,675) were used to secure Repo agreements and borrowings from banks.

Deposits from banks as at 30 June 2016 represent short-term borrowings obtained from resident and non-resident banks.

Borrowing from financial institutions represents seven-year borrowings of EUR 14,667,139 outstanding as at 30 June 2016 (31 December 2015: EUR 17,592,267) bearing an interest rate of 2.43%, obtained from European Fund for Southeast Europe (EFSE), under the Framework Agreement signed on 20 September 2010 for granting loans to SME customers of the Bank. Part of this borrowing as at 31 December 2015 are the two tranches amounting to EUR 5,000,000 each, disbursed from EFSE to BKT Kosovo, during December 2013 and June 2014.

20. Due to third parties

The Bank acts as an agent for the tax authorities either in the collection of taxes or in performing advance payments for the budget. In return, the Bank charges a commission to the taxpayers for the service rendered. The credit balance as at 30 June 2016 of USD 3,714,022 (31 December 2015: USD 2,828,259) represents the net outstanding amount of payments and collections made by the Bank to and from third parties, on behalf of tax authorities.

21. Deferred tax liabilities

Deferred income taxes are calculated on all temporary differences using a tax rate of 15%. The movement on the deferred income tax account is as follows:

	30 June 2016	31 December 2015
Liability at 1 January	722,574	1,846,611
(Income) / expense for the period	(538,783)	(967,783)
Reversal for the year	-	-
Exchange differences	11,304	(156,254)
Liability at the end of the period	**195,095**	**722,574**

21. Deferred tax liabilities (continued)

Deferred income tax liabilities / (assets) are attributable to the following items:

	30 June 2016	31 December 2015
Deferred income on fees on loans	(648,489)	(611,049)
Decelerated depreciation	(701,938)	(667,426)
Provision of other debtors	(279,313)	(274,228)
Allowance for loan impairment	1,497,798	1,291,262
Fair value reserve for AFS securities	327,037	984,015
	195,095	**722,574**

22. Accruals and other liabilities

A breakdown of accruals and other liabilities as at 30 June 2016 and 31 December 2015 is presented as follows:

	30 June 2016	31 December 2015
Due to tax authorities	2,651,319	4,094,179
Accrued expenses	2,548,905	1,694,662
Creditors	1,823,411	1,807,329
Reversed temporary differences payable to tax authorities	1,439,588	1,413,380
Payments in transit	1,340,023	1,964,021
Bonus payable	1,068,529	1,489,200
Liability for retiring employees (note 3(r).ii.)	951,834	962,042
Payables to constructors for home loans	501,843	529,014
Social insurance	192,658	169,580
Cash guarantees from suppliers	70,800	62,954
Foreign exchange contracts revaluation loss	-	302,117
	12,588,910	**14,488,478**

Creditors represent balances that relate to old transactions of the Albanian Government and are pending on the future determination of the rightful owner of these amounts.

Bonus payable represents the accrued yearly performance bonus for the bank's staff and management, which is expected to be paid within the first quarter of 2017.

Subordinated debt

Subordinated debt of USD 27,863,225 (31 December 2015: USD 27,291,374) represents the equivalent amount of a new facility of EUR 25 million that was obtained from the Green for Growth Fund Southeast Europe, under the Subordinated Term Loan Facility Agreement, signed on 22 December 2015 with the purpose of granting loans related to Energy Efficiency and Renewable Energy investments. The previous subordinated debt of EUR 15 million was cancelled / prepaid before maturity.

Pursuant to the approvals granted by Bank of Albania, the subordinated debt was classified as second-tier capital and included in the regulatory capital of the Bank.

23. Shareholders' equity

Share Capital

At 30 June 2016, the authorised share capital comprised 20,242,915 ordinary shares (2015:16,754,000). The shares have a par value of USD 12.35. All issued shares are fully paid. The holder of ordinary shares is entitled to receive dividends, if declared. All shares rank equally with regard to the Bank's residual assets.

Reserves

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of consolidated financial statements from functional currency to presentation currency.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired.

Retained earnings

Retained earnings as at 30 June 2016, includes the cumulative non distributed earnings. As described in Note 1, the Bank has used its retained earnings amounting to Lek 5,339,908 thousand (equivalent of USD 43,088,100.25) to increase its share capital on 24 March 2016. Retained earnings are distributable.

24. Interest income

Interest income is composed as follows:

	Six-month period ended 30 June 2016	**Six-month period ended 30 June 2015**
Placements and balances with banks and Central Bank	2,339,952	2,076,504
Treasury bills and investment securities	27,017,204	27,854,727
Loans and advances to customers	31,915,675	32,035,217
	61,272,831	**61,966,448**

Interest income can be further analysed as follows:

	Six-month period ended 30 June 2016	**Six-month period ended 30 June 2015**
Held-to-maturity investments	5,551,334	5,447,321
Available-for-sale financial assets	23,805,822	24,483,910
Loans and receivables	31,915,675	32,035,217
	61,272,831	**61,966,448**

Interest income on individually impaired loans for the six-month period ended 30 June 2016 was USD 193,323 (30 June 2015: USD 95,742).

25. Interest expense

Interest expense raised from financial liabilities measured at amortized cost is composed as follows:

	Six-month period ended 30 June 2016	**Six-month period ended 30 June 2015**
Due to banks and financial institutions	2,623,198	4,274,593
Customer deposits	11,581,328	14,029,252
	14,204,526	**18,303,845**

26. Fees and commissions, net

Fee and commission revenue and expense are comprised of the following items:

	Six-month period ended 30 June 2016	**Six-month period ended 30 June 2015**
Fee and commission income		
Payment services to clients	2,325,178	2,038,869
Lending activity	1,707,376	1,391,458
Inter-bank transactions	1,461,978	544,478
Electronic banking transactions	1,215,959	954,067
Customer accounts' maintenance	879,768	710,810
Cash transactions with clients	168,430	133,082
Other fees and commissions	81,379	75,184
	7,840,068	*5,847,948*
Fee and commission expense		
Inter-bank transactions	(310,922)	(133,901)
Customer accounts' maintenance	(52,474)	(36,350)
Transactions with clients	(33,145)	(495)
Payment services to clients	(16,963)	(7,731)
Other fees and commissions	(34)	-
	(413,538)	*(178,477)*
Fees and commissions, net	**7,426,530**	**5,669,471**

27. Foreign exchange revaluation loss, net

Foreign exchange revaluation gain/(loss) represents the net revaluation of the Bank's foreign currency monetary assets and liabilities. In addition, as described in Note 3(b) it also includes the revaluation of the Bank's share capital. The revaluation gain on the share capital for the six-month period ended 30 June 2016 is USD 3,971,255 (six-months ended 30 June 2015: loss USD 13,333,655).

28. Other income/(expense), net

Other income and expenses are composed as follows:

	Six-month period ended 30 June 2016	**Six-month period ended 30 June 2015**
Other income		
Income from operating lease	95,734	84,869
Gain on recovery of written off loans to customers	43,201	48,402
Gain on sale of property and equipment	39,793	-
Reversal of staff pension fund	15,327	50,129
Gain on sale of assets acquired through legal process	14,807	-
Reversal of other debtors	-	179,221
Sundry	6,089	60,693
	214,951	*423,314*
Other expense		
Write off of loans to customers	(586,135)	(1,149,259)
Provision of other debtors	(462,975)	(1,327,014)
Loss from other debtors	(46,527)	-
Loss on sale or write off of fixed assets	(31,143)	(31,374)
Sundry	(32,710)	(32,158)
	(1,159,490)	*(2,539,805)*
Other (expense) / income, net	**(944,539)**	**(2,116,491)**

29. Personnel expenses

Personnel expenses are composed as follows:

	Six-month period ended 30 June 2016	**Six-month period ended 30 June 2015**
Salaries	6,375,300	6,424,544
Performance bonus	950,367	903,734
Social insurance	620,860	613,126
Training	190,669	145,087
Life insurance	45,422	51,912
Other	127,238	124,113
	8,309,856	**8,262,516**

30. Administrative expenses

Administrative expenses are composed as follows:

	Six-month period ended 30 June 2016	Six-month period ended 30 June 2015
Deposit insurance expense	3,072,330	2,596,322
Credit/debit cards expenses	1,399,395	917,445
Lease payments	1,303,346	1,243,110
Telephone, electricity and IT expenses	1,052,201	1,009,551
Marketing expenses	1,050,535	536,007
Repairs and maintenance	729,763	810,938
Security and insurance expenses	459,319	443,857
Transportation and business related travel	389,331	382,427
Other external services (including external audit fees)	346,189	429,649
Office stationery and supplies	199,105	208,432
Taxes other than tax on profits	112,385	60,399
Representation expenses	100,573	90,318
Sundry	564,903	290,415
	10,779,375	**9,018,870**

31. Income tax

Income tax is comprised of:

	Six-month period ended 30 June 2016	Six-month period ended 30 June 2015
Current income tax	6,078,770	5,016,959
Deferred tax expense/(income) (note 21)	(538,783)	(647,716)
	5,539,987	**4,369,243**

The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	Six-month period ended 30 June 2016	Six-month period ended 30 June 2015
Profit before taxes	**35,393,157**	**28,802,852**
Computed tax using applicable tax rate of 15%	5,308,974	4,320,428
Non tax deductible expenses	167,983	88,642
Cumulative deferred tax liability at 15%	-	-
Foreign exchange difference	63,030	(39,827)
Income tax	**5,539,987**	**4,369,243**
Effective tax rate	**15.65%**	**15.17%**

32. Related party transactions

Identity of related parties

In accordance with IAS 24 "Related Party Disclosures", a related party is any party that has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

The Bank has related party relationships with its shareholders and affiliates, directors and executive officers. The Bank's sole shareholder is Calik Finansal Hizmetler, which is owned by Calik Holding at 100% as at 30 June 2016. The ultimate controlling party is Mr. Ahmet Calik.

ALBtelecom Sh.a., Eagle Mobile Sh.a., Albania Leasing, Aktif Yatirim Bankasi A.S. ("Aktifbank"), GAP Pazarlama FZE, Gap İnşaat Yatırım ve Dış Ticaret A.Ş., Calik Elektrik Dagitim A.S and Calik Enerji Sanayi Ve. Ticaret A.S, Kosovo Electricity Distribution and Supply Company J.S.C (KEDS) and Kosovo Electricity Supply Company J.S.C (KESCO) are controlled by Calik Holding.

Balances and transactions with related parties

	30 June 2016	31 December 2015
Assets		
Placement and balances with banks:		
Current accounts with Aktifbank	18,270	10,935
Placement with Albania Leasing	562,792	547,655
Loans to customers:		
KEDS / KESCO	422,664	770,493
ALBtelecom	11,073,454	8,058,495
GAP Pazarlama FZE	1,115,876	1,096,572
Gap İnşaat Yatırım ve Dış Ticaret A.Ş.	13,329,750	13,114,251
Albania Leasing	300,085	323,921
Other assets:		
Receivables from ALBtelecom Sh.a	5,435	-
Total assets	**26,828,326**	**23,922,322**
Liabilities		
Due to banks and financial institutions:		
Borrowings from Aktifbank	39,293,232	5,684,735
Borrowings from Albania Leasing	605,180	601,540
Customer deposits:		
ALBtelecom Sh.a.	551,035	1,096,735
Other liabilities:		
Payables to Calik Holding	-	174,811
Total liabilities	**40,449,447**	**7,557,821**

33. Related party transactions (continued)

Balances and transactions with related parties (continued)

	Six months period ended 30 June 2016	Six months period ended 30 June 2015
Statement of comprehensive income		
Interest income from:		
GAP Pazarlama FZE	40,549	215,005
KEDS	22,302	49,157
ALBtelecom Sh.a.	314,304	165,337
Gap İnşaat Yatırım ve Dış Ticaret A.Ş.	492,836	190,389
Albania Leasing	12,693	-
Interest expenses for:		
ALBtelecom Sh.a. and Eagle Mobile Sh.a.	(99)	(1,718)
Aktifbank	(71,008)	(192,183)
Albania Leasing	(3,640)	-
Fees and commissions:		
Letters of guarantee:		
ALBtelecom Sh.a.	30	83
KEDS	-	2,906
Calik Enerji Sanayi Ve. Ticaret A.S	34,646	-
Account maintenance and lending fees from ALBtelecom Sh.a. and Eagle Mobile Sh.a.	2,604	1,680
Other income:		
Operating lease income from ALBtelecom Sh.a.	32,652	32,638
Operating expenses:		
ALBtelecom Sh.a., Eagle Mobile Sh.a. and Calik Holding	(425,940)	(454,733)
Net	**451,929**	**8,561**

Balances and transactions with directors and executive officers

The remuneration of directors and executive officers is included in personnel expenses. It can be detailed as follows:

	Six-month period ended 30 June 2016	Six-month period ended 30 June 2015
Directors	57,463	57,462
Executive officers	1,395,460	1,367,640
	1,452,923	**1,425,102**

The remuneration of directors and executive officers for the year ended 31 December 2015 was USD 2,893,752.

As at 30 June 2016, the total deposits of directors held with the Bank were USD 1,530,013 (31 December 2015: USD 1,074,956), while the outstanding loans granted to directors were USD 315,851 (31 December 2015: 174,098).

33. Contingencies and commitments

Guarantees and letters of credit

	30 June 2016	31 December 2015
Guarantees in favour of customers	55,618,615	69,121,558
Guarantees received from credit institutions	12,683,556	24,907,704
Letters of credit issued to customers	2,821,135	7,639,499

Guarantees and letters of credit issued in favour of customers are mostly counter guaranteed by other financial institutions or fully cash collateralised.

At present the Bank is operating as an agent for the Government in the administration and implementation of certain loans to state owned entities utilising credit lines received from international donors. These donors have received individual guarantees from the government of Albania to cover the reimbursement of their lines of credit.

Other

	30 June 2016	31 December 2015
Undrawn credit commitments	96,585,161	97,321,211
Outstanding cheques of non-resident banks	280,590	262,371
Spot foreign currency contract	88,454,273	92,163,301
Collaterals for loan portfolio	2,386,616,000	2,237,788,492
Securities pledged as collateral (note 19)	161,784,615	92,614,675

Legal

In the normal course of business the Bank is presented with legal claims and litigation; the Bank's management is of the opinion that no material losses will be incurred in relation to legal claims outstanding as at 30 June 2016.

Lease commitments

Such commitments for the period ended 30 June 2016 and year ended 31 December 2015 are composed as follows:

	30 June 2016	31 December 2015
Not later than 1 year	2,481,997	2,460,804
Later than 1 year and not later than 5 years	4,959,572	5,341,596
Later than 5 years	1,476,126	1,353,961
Total	**8,917,695**	**9,156,361**

The Bank has entered into lease commitments for all the branches and agencies opened during the years 2003-2016 with a maximum duration of ten years.

The Bank had 85 rented buildings as at 30 June 2016, in which are included the rented space dedicated to offsite disaster recovery and the 26 buildings rented for units of Kosovo Branch.

The Bank may cancel these leases upon giving three months' notice. Therefore, at 30 June 2016, the maximum non-cancellable commitment payable not later than one year is USD 620,499 (31 December 2015: USD 615,201).

The Bank leases a number of properties under operating leases. The leases typically run for a period of up to 1 year, with an option to renew the lease after that period

34. Subsequent events

There are no subsequent events that would require either adjustments or additional disclosures in the financial statements.